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The Borden Company

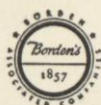
ESTABLISHED 1857

AND ALL SUBSIDIARY COMPANIES

ANNUAL REPORT

YEAR ENDED DECEMBER 31, 1935

NEW YORK

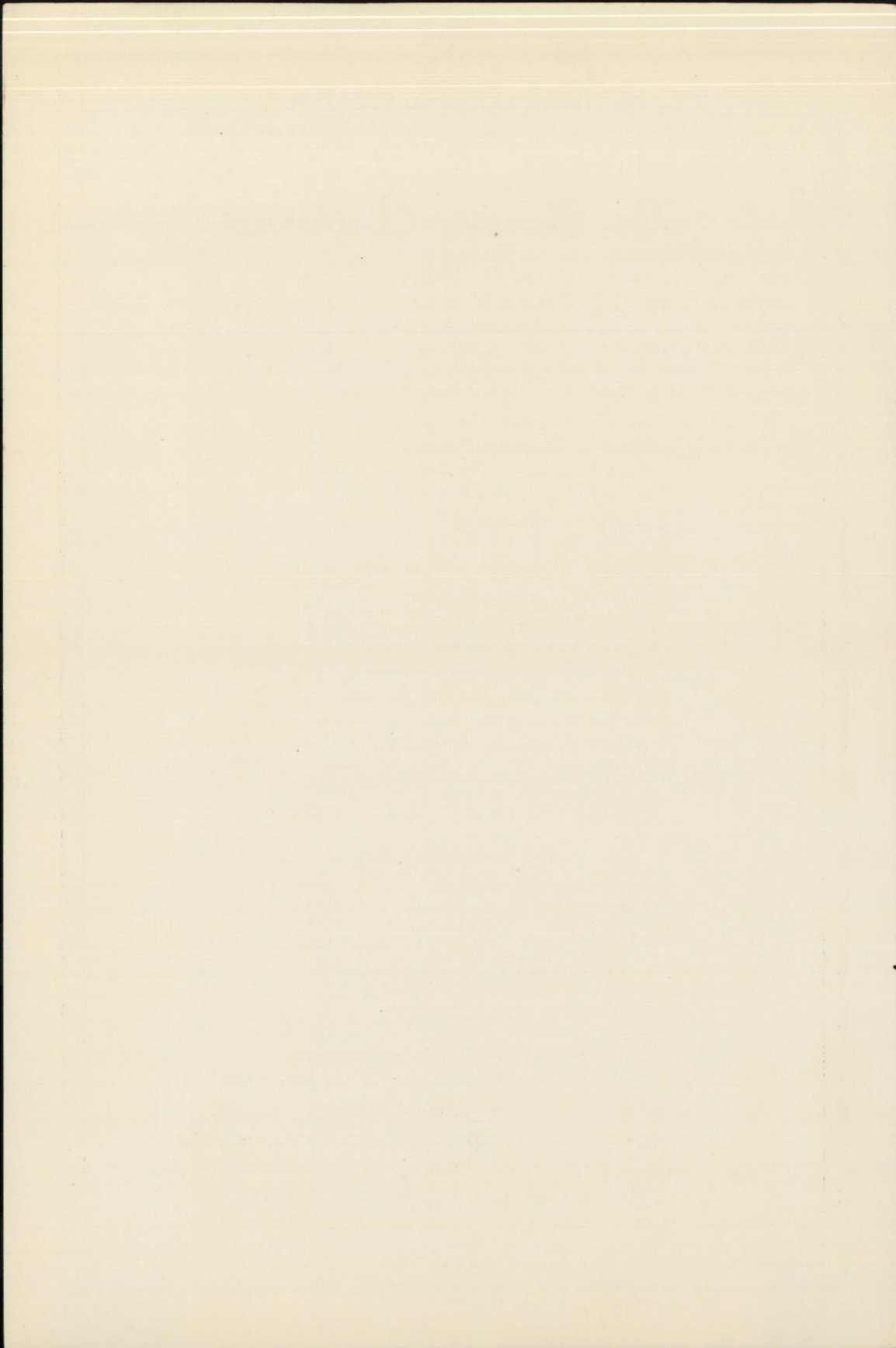


MARCH 1936

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THE BORDEN COMPANY

DIRECTORS

HOWARD BAYNE	EDWARD B. LEWIS	THOMAS I. PARKINSON
L. MANUEL HENDLER	JOHN W. McCONNELL	BEVERLEY R. ROBINSON
ROBCLIFF V. JONES	ALBERT G. MILBANK	STANLEY M. ROSS
LESTER LE FEBER	ARTHUR W. MILBURN	GEORGE M. WAUGH, JR.
	MARCUS M. MUNSILL	

OFFICERS

ALBERT G. MILBANK, *Chairman Board of Directors*
ARTHUR W. MILBURN, *President*
PATRICK D. FOX, *Vice-President*
EDWARD B. LEWIS, *Vice-President*
THEODORE G. MONTAGUE, *Vice-President*
RALPH D. WARD, *Vice-President*
GEORGE M. WAUGH, JR., *Vice-President*
EVERETT L. NOETZEL, *Treasurer*
WALTER H. REBMAN, *Secretary*
ST. JOHN W. DAVIS, *General Controller*
GEORGE BITTNER, *Assistant Treasurer*
HAROLD K. KRAMER, *Assistant Treasurer*
FREDERICK W. SCHWARZ, *Assistant Treasurer*
THEODORE D. WAIBEL, *Assistant Secretary*

EXECUTIVE OFFICES

THE BORDEN COMPANY
350 Madison Avenue, New York City
(*Subsidiary and Territorial Offices not included*)

REGISTERED OFFICE

15 Exchange Place, Jersey City, N. J.

Transfer and Dividend Disbursing Agent
THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK
11 Broad Street, New York City

Registrar, BANKERS TRUST COMPANY, 16 Wall Street, New York City
Counsel, MILBANK, TWEED, HOPE & WEBB, 15 Broad Street, New York City
Auditors, HASKINS & SELLS, 22 East 40th Street, New York City

TO THE STOCKHOLDERS OF THE BORDEN COMPANY:

There are presented herewith Financial Statements, together with Accountants' Certificate of Messrs. Haskins & Sells, setting forth the Operating Results for 1935 and the condition of the Company at the close of that year.

The Balance Sheet reflects the carrying out of the recommendations of the Directors, as approved by the Stockholders at their meeting of April 17, 1935, which recommendations, with the reasons therefor and the treatment and results thereof, if and when approved, were fully set forth in the Annual Report to Stockholders for the year 1934.

By this action the Par Value of the Capital Stock was reduced from \$25 per share to \$15 per share; Capital Surplus of \$43,967,040.00 was thereby created, against which has been charged write-offs of \$6,999,999.00 of Trade-Marks, Patents and Good-Will, and \$23,826,729.80 of Unserviceable Properties and Excess Values by which Operating Properties have been adjusted, which adjusted values served as the basis for provision for depreciation as applying to the properties affected. After these charges, less certain credits, there remains a Capital Surplus Balance on December 31, 1935 of \$13,581,199.40, which amount is available for such further proper use as the Directors may determine and counsel and the independent auditors approve.

With questionable property values eliminated; with Trade-Marks, Patents and Good-Will valued at \$1.00 only; with \$1,700,000 mortgage indebtedness removed; and with Cash, Working Capital, Surplus and Reserves as shown, the Balance Sheet as herein set forth is one in which the Stockholders may justly take pride.

As much cannot be said for 1935 Net Income. However, unless the Stockholder is informed of and gives consideration to certain facts, he may, by over-emphasizing the net income item, get a distorted view of the year's accomplishments. This for the reason that the unsatisfactory results are

not attributable to a general all-pervading condition indicating lack of progress everywhere, but principally to a very few definitely known situations susceptible of immediate improvement and future control.

To be more specific, the 1935 current operating losses of the Produce Division, together with the losses attending the liquidation of certain of its operations, contributed principally to the unfavorable results of 1935. Fear of a repetition of this 1935 performance is not justified for the reason that the scope of this division's operations have, effective January 1, 1936, been greatly curtailed, policies and methods changed, and certain of its unprofitable operations discontinued and liquidated.

In the Fluid Milk Division as a whole, decided improvement was shown over the previous year. However, most chaotic conditions in the Chicago milk market including the farmers' strike, and the labor strike in Milwaukee, were such as to cause heavy losses in these particular markets. It is expected that these markets will show improvement in 1936.

The losses attending these three particularly mentioned operations more than account for the 50¢ per share by which the dividend of \$1.60 per share was unearned.

Effective in January 1936, all but a few of its subsidiary companies in the United States were merged into The Borden Company, which latter now becomes an operating company with its merged subsidiaries operating as divisions thereof, as more fully set forth on page 13. By this action, operations are somewhat simplified and substantial tax savings are effected beginning in 1936, which estimated savings, however, will be more than overcome by the new and additional taxes beginning January 1, 1936 occasioned by the tax provisions of the Social Security Act and the increase in the Corporate Income Tax Rate. The subsidiaries continuing for legal and practical reasons would not, if merged, contribute substantially to tax savings.

The Budget of Capital Expenditures for 1936, as approved by the Board of Directors, provides fully for replacements and includes substantial provision for improvement and expansion of plant and equipment.

S a l e s

Sales for the year amounted to \$229,888,089.16 compared with \$215,723,659.07 for 1934, a sales value increase of about 6½ per cent and a sales tonnage increase of about 2 per cent.

Net Income and Earnings per Share

Net Income of \$4,842,348.96 is 2.1 per cent of sales and \$1.10 per share on all of the Capital Stock outstanding December 31, 1935 (See comments on preceding pages). Net Income of \$4,490,044.80 as shown in the Annual Report for 1934 was \$1.02 per share.

Taxes of every nature for the year 1935 amount to \$4,282,329.39 or 97¢ per share of stock outstanding, which compares with \$3,714,186.72 and 84¢ per share of stock outstanding for the year 1934.

Net Working Capital

This item at the close of the year stood at \$40,803,832.75 compared with \$43,332,687.23 on December 31, 1934.

The ratio of Current Assets to Current Liabilities on December 31, 1935 was \$4.30 to \$1.00 which compares with a ratio of \$4.28 to \$1.00 on December 31, 1934.

Cash on hand, after paying the Mortgage of \$1,700,000 on Madison Avenue Office Building Property on November 29, 1935, was in excess of the total of all Current Liabilities and amounted to \$19,840,568.27 on December 31, 1935, which compares with \$17,313,375.04 on December 31, 1934.

Frozen and restricted deposit funds, aggregating \$164,578.40 gross at December 31, 1935, are not included in cash. Reserve provision is made for the estimated loss involved and the net balance is carried under Miscellaneous Assets. The amount of these funds was reduced by cash collections of \$8,394.60 during the year.

Inventories of \$15,260,039.21 compare with \$19,365,166.13 on December 31, 1934. All inventory items are, as usual, valued at the lower of cost or market.

Marketable Securities, a substantial amount of which were United States Government securities, and including material holdings of Canadian Government securities, taken at their cost, amounted to \$5,163,420.85 and at their market value to \$5,484,389.48 on December 31, 1935. These compare with a cost of \$6,836,695.04 and a market value of \$7,087,283.53 on December 31, 1934 for securities then owned, a portion of which were sold during the year.

Collections continue to show improvement but are not yet normal. All credit losses have been charged off and adequate Reserves against future losses have been created by charges to operations, thus leaving Receivables in a healthy condition.

Capital Stock

The par value of Capital Stock was reduced from \$25 per share to \$15 per share, as referred to on page 4.

There was no change in either the Authorized or the Outstanding number of shares of Capital Stock during the year.

The Capital Structure continues without any outstanding securities senior to the Common Stock of The Borden Company.

The stock outstanding December 31, 1935 was held by 40,601 Stockholders, with an average holding of 108 shares, which compares with 39,761 Stockholders with an average holding of 111 shares on December 31, 1934.

Respectfully submitted,

ARTHUR W. MILBURN
President

THE BORDEN COMPANY and
Consolidated Balance Sheet

A S S E T S

CURRENT ASSETS:

Cash	\$ 19,840,568.27	
Marketable Securities—At Cost (Market Value \$5,484,389.48)	5,163,420.85	
Receivables (<i>Including salary advances to employees of \$48,510.44</i>) — Less Reserve for Doubtful Accounts of \$1,917,114.41	12,890,235.70	
Inventories—At the Lower of Cost or Market:		
Finished Goods	\$9,997,128.56	
Materials and Supplies	5,262,910.65	15,260,039.21
		\$ 53,154,264.03

MORTGAGES AND OTHER RECEIVABLES—

Not Current (<i>Resulting principally from sales of Property</i>) and MISCELLANEOUS ASSETS, less Reserves	1,911,333.68
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PROPERTY, PLANT AND EQUIPMENT

(Principally at cost, but in part at lower valuations established by the Company)	\$103,851,703.01
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Less Reserves for Depreciation based on above property valuations	39,402,956.91	64,448,746.10
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PREPAID ITEMS	625,397.65
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TRADE-MARKS, PATENTS AND GOOD-WILL	1.00
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TOTAL	<u>\$120,139,742.46</u>
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NOTATION: *The above balance sheet does not contain any salvage values which may be ultimately realized from properties, now owned and not essential to operations, which have been written off against Capital Surplus.*

all SUBSIDIARY COMPANIES
 eet, December 31, 1935

LIABILITIES

CURRENT LIABILITIES:

Accounts Payable	\$ 8,790,382.55	
Accrued Accounts:		
Taxes (Including Income Taxes—		
Estimated)	1,850,232.41	
Other Items	1,709,816.32	\$ 12,350,431.28

DEFERRED INCOME, AND LIABILITIES—Not Current 107,747.07

RESERVES:

Contingency Reserve	\$ 2,664,009.48	
Insurance and Other Operating		
Reserves	5,204,108.61	7,868,118.09

CAPITAL STOCK—THE BORDEN COMPANY:

Common \$15.00 par		
(Authorized 8,000,000 shares)		
Issued	4,417,958 shares	
Less Treasury Stock	21,254 "	
Outstanding	4,396,704 "	65,950,560.00

SURPLUS:

Capital Surplus	\$ 13,581,199.40	
Earned Surplus	20,281,686.62	33,862,886.02
TOTAL		<u>\$120,139,742.46</u>

THE BORDEN COMPANY *and all* SUBSIDIARY COMPANIES

Statement of Consolidated Net Income and Earned Surplus

For the Year Ended December 31, 1935

NET SALES	\$229,888,089.16
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COST OF SALES AND EXPENSES:

(Including provision for depreciation in the amount of \$6,481,666.79, insurance, property taxes, and all manufacturing, selling, delivery, administrative and general expenses, after deducting miscellaneous operating income)	224,230,545.61
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NET OPERATING PROFIT	\$ 5,657,543.55
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OTHER INCOME (Less Charges for Interest)	339,559.10
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GROSS INCOME	\$ 5,997,102.65
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DEDUCT:

Federal and Other Income Taxes—(Estimated)	\$1,020,945.61
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Maintenance expenditures on properties not essential to operations and written off against Capital Surplus (Less rentals of \$130,243.44 received therefrom)	133,808.08	1,154,753.69
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NET INCOME	\$ 4,842,348.96
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EARNED SURPLUS, JANUARY 1, 1935	22,474,064.06
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GROSS SURPLUS	\$ 27,316,413.02
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SURPLUS CHARGE—DIVIDENDS PAID IN CASH DURING THE YEAR 1935	7,034,726.40
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EARNED SURPLUS, DECEMBER 31, 1935	<u>\$ 20,281,686.62</u>
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THE BORDEN COMPANY *and all* SUBSIDIARY COMPANIES

Summary of Consolidated Capital Surplus

For the Year Ended December 31, 1935

Created by reduction in par value of shares of Capital Stock, as approved by the Stockholders at meeting held on April 17, 1935 (from \$25 to \$15 per share on 4,396,704 shares issued and outstanding)	\$43,967,040.00
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CHARGES:

Write-Off of Unserviceable Properties and Excess Values by which Operating Properties have been adjusted, after application of reserves	\$23,826,729.80
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Reduction of the Book Value of Trade-Marks, Patents and Good-Will to a nominal amount of \$1.00	6,999,999.00
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TOTAL	\$30,826,728.80
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Less Salvage values realized from disposals of unserviceable properties, and fair operating values ascribed to other such properties adapted to some operating use	440,888.20
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NET CHARGES	30,385,840.60
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CAPITAL SURPLUS, DECEMBER 31, 1935	<u><u>\$13,581,199.40</u></u>
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ACCOUNTANTS' CERTIFICATE

THE BORDEN COMPANY:

We have made an examination of the consolidated balance sheet of THE BORDEN COMPANY and its subsidiary companies as of December 31, 1935, and of the related statement of consolidated net income and earned surplus and summary of consolidated capital surplus for the year 1935. In connection therewith, we made a review of the accounting methods, examined or tested accounting records of the companies and other supporting evidence in a manner and to the extent which we considered appropriate in view of the system of internal accounting control, and made a general review of the operating and income accounts for the year. The inventory records were reviewed by us and appear to be correct, and in substantiation of inventory quantities, we have accepted certificates from officials of the companies.

Pursuant to approval by the Stockholders on April 17, 1935, the par value of the Company's outstanding capital stock was reduced from \$25 to \$15 a share, resulting in a capital surplus of \$43,967,040.00. The charges made against capital surplus during the year 1935 for adjustments of the net book value of fixed properties and intangible assets are reflected in the accompanying summary of consolidated capital surplus. The provision for depreciation as shown in the accompanying statement of consolidated net income and earned surplus for the year 1935 is based upon property values as adjusted.

Legal actions in which Mills Novelty Co. seeks judgments for material amounts from the Company and certain of its subsidiaries, and a large number of other defendants, are pending in the Federal Courts of Illinois and New York. The Company's counsel believe the suits to be without merit as against the Company and its subsidiaries.

In our opinion, subject to the foregoing, the accompanying consolidated balance sheet, with notation thereon, and related statement of consolidated net income and earned surplus and summary of consolidated capital surplus of THE BORDEN COMPANY and its subsidiary companies, fairly present, in accordance with accepted principles of accounting consistently followed by the companies, their financial condition at December 31, 1935, and the results of their operations for the year.

HASKINS & SELLS.

New York, February 25, 1936.

CORPORATE ORGANIZATION AND SCOPE

The four major sub-holding companies were dissolved early in 1936, and all but a comparatively few of the subsidiary companies in the United States were merged into The Borden Company, which then ceased being principally a holding company, and became an operating company with its merged subsidiaries operating as divisions thereof. There were no changes affecting the Canadian operations which continue to operate as subsidiaries of Borden's Ltd, a Dominion Corporation.

The Borden Company (a New Jersey Corporation) owns 100% of the stock of all of its remaining subsidiaries including Borden's Ltd, which in turn owns 100% of the stock of its Canadian subsidiaries.

The business falls into four general divisions, as follows:

MANUFACTURED PRODUCTS. Manufacture and sale since 1857 of Eagle Brand as well as other brands of condensed milk; also evaporated, malted and dry milk; casein products, caramels, mince meat, dried fruit juices, etc.

Business of the above nature is conducted throughout the United States, Canada and in Export Markets.

FLUID MILK. Purchase and distribution by a system of wagon deliveries of milk, cream, butter, eggs, etc.

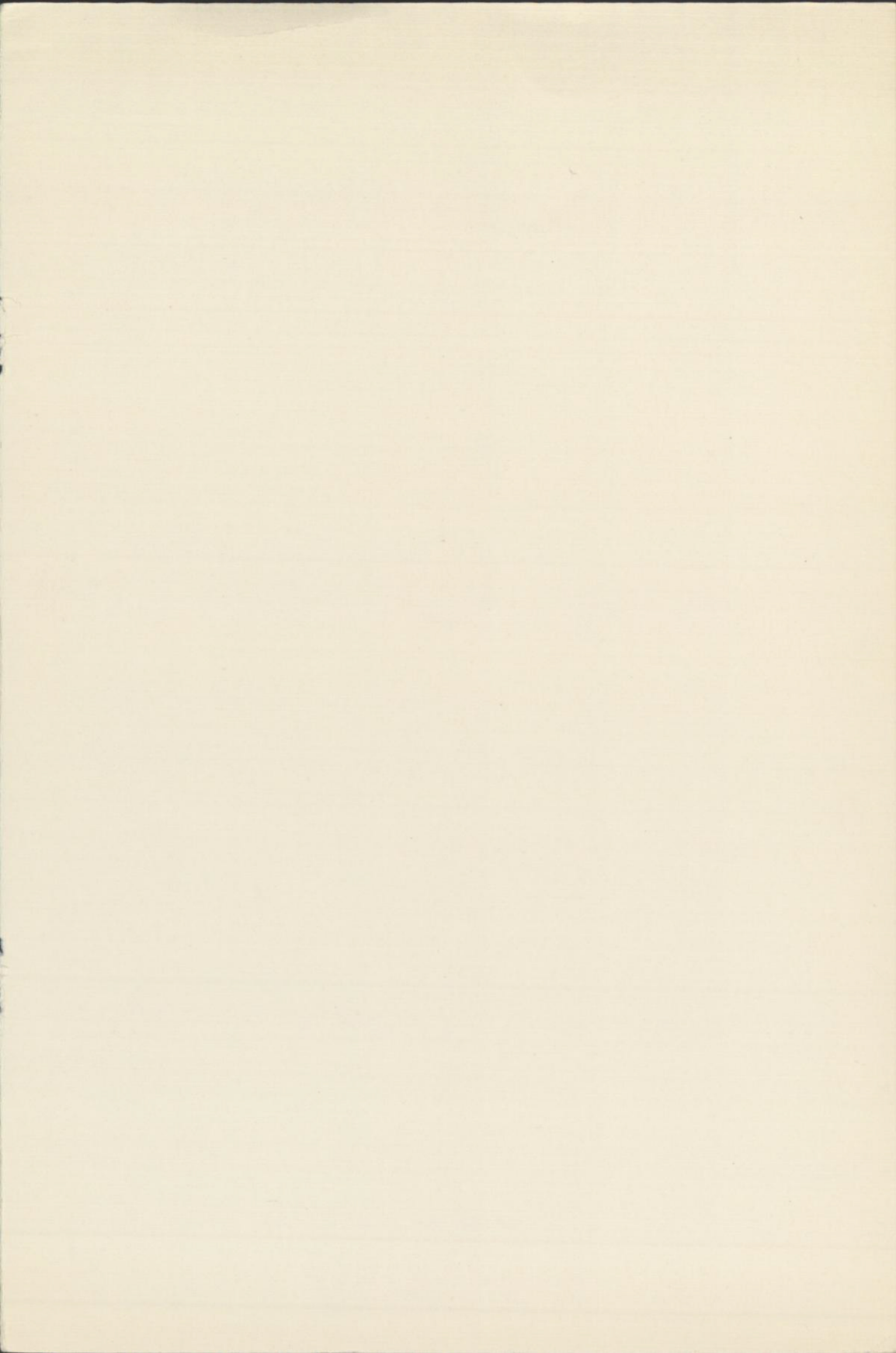
Business of the above nature is conducted in the States of Arizona, California, Connecticut, Florida, Illinois, Indiana, Kansas, Massachusetts, Michigan, Missouri, New Jersey, New York, Ohio, Pennsylvania, Texas, Wisconsin, and in the Provinces of Ontario and Quebec in Canada.

ICE CREAM. Manufacture and sale of ice cream and allied products.

Business of the above nature is conducted in the States of California, Connecticut, Delaware, Illinois, Indiana, Iowa, Kentucky, Maryland, Massachusetts, Michigan, Missouri, Nebraska, New Jersey, New York, Ohio, Pennsylvania, Texas, West Virginia, Wisconsin, and in the Provinces of Ontario and Quebec in Canada.

CHEESE AND PRODUCE. Manufacture and sale of package, loaf, bulk and fancy cheeses; also purchase, production and sale of farm produce (butter, eggs, etc.) as a source of supply for our own wagon distribution, and at wholesale.

Business of the above nature is conducted throughout the United States, Canada and in certain Export Markets.





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